



**Joint Committee on the Master Plan for Higher Education
Testimony of Jamie P. Merisotis
President, Lumina Foundation for Education**

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Assembly member Ruskin, Senator Negrete McLeod, and members of the committee, thank you for the opportunity to address the Joint Committee on the Master Plan for Higher Education.

As you well know and have heard from many others, the California Master Plan is one of the most important developments in the history of higher education, and has had tremendous influence well beyond the borders of your state. But let's be extremely clear – the Master Plan is not just an artifact of historical interest to scholars of higher education or public policy. The Master Plan continues to affect the lives and futures of thousands of Californians. Given the essential role of higher education to the social and economic vitality of every state, the importance of the California Master Plan on its 50th anniversary is growing, not diminishing.

Just as happened in the 1960s, I expect the decisions made about the future of the Master Plan will have a significant impact on the future of higher education well beyond California's borders. For that reason, as President of the nation's largest foundation devoted exclusively to increasing college access and success, I consider this opportunity to address you to be an important milestone in the work that we are doing across the nation.

Before I get into specifics, let me take a moment to provide a bit of background on Lumina. Lumina Foundation for Education is a national foundation, established 10 years ago in Indianapolis. With assets of more than \$1.1 billion dollars, Lumina is among the top 30 or so largest private foundations in terms of asset size. Unlike most of our sister foundations, we have just one mission: getting more Americans into and through college.

It is my contention that America's continued prosperity and social stability depend on our system of higher education. Historically, that system has served the nation fairly well—and it continues to serve some segments of the population quite well, indeed. Unfortunately, to borrow a phrase from the mutual fund prospectus you receive in the mail: "Past performance is no guarantee of future results." In a nutshell, this sums up California's dilemma. In spite of the enormous success of the California Master Plan over the past 50 years, considering the economic, social and demographic challenges you face – and we face collectively as a nation –

the current performance of higher education seems to be insufficient to meet our growing needs.

It is important that the discussion about the future of the Master Plan overwhelmingly be about the needs of students and the state, and less about the needs of higher education institutions. The critical questions have to do with students – Who are they? How many of them are there? What are their needs? How do they learn? At Lumina, we believe it is time to move away from defining quality in higher education in terms of inputs – things like resources, faculty workload, and selectivity – and shift to defining quality in terms of student outcomes, specifically the ~~quality and relevance of degrees and credentials~~. The decisions we make about higher education should be based on what is in the best interest of students and the public. The Master Plan is a means to this end, and not an end in itself. I believe taking a more student-centered approach has specific implications for the choices you face in determining the future direction of higher education in California.

This morning, I want to make three points. The first is that in spite of the numerous and obvious challenges we face as a nation, and you face here in California, we must set our expectations for higher education much higher—to reach for a "Big Goal" that many more students complete some form of postsecondary education with a degree or workforce-relevant certificate. The second is that this goal is attainable and that we pretty much know what it will take to accomplish it. And the third is that there are many examples of states and higher education institutions starting to actually enact the policies and implement the changes that are needed to dramatically increase attainment. It is my hope that that I and my colleagues on this panel can lay out at least an outline of what California can do to meet its ever-changing higher education needs – both now and into the future.

Let me start, then, with the Big Goal. For most of the almost three years I've served as Lumina's president, we have pursued one specific aim. Lumina's Big Goal is this: **By the year 2025, we want 60 percent of the American population to hold high-quality college degrees or credentials.** Today, around 40 percent of working-age Americans have at least a two-year degree. This 40 percent figure is virtually identical for Americans between the ages of 25 and 34 and those between 55 and 64. According to the Organization for Economic Co-operation and Development (OECD), the U.S. is one of the very few countries where younger adults are not better educated than older adults. In fact, the U.S. has the best educated adults over the age of 55 in the world. But for younger adults between the ages of 25 and 34, the U.S. ranks only 10th in the proportion that have completed either a two- or four-year degree.

It's important that we take a moment to understand very clearly the implications of these data. When America first reached a higher education attainment rate of 40% for young adults back in the 1970s, it represented the great success of our nation's efforts to educate the baby boomers. Most particularly, it represented the success of the California Master Plan and the efforts in other states it inspired. Unfortunately, we stopped at 40 percent while other countries first caught up and then pushed beyond. Today, several countries, including Korea and Canada, award college-level degrees to more than 50 percent of their young people. Plus,

their pace of increasing attainment shows no signs of slowing down. I draw no deeper lesson from their example than this: if they can do it, we can to.

And, yes, we must increase attainment. There is no disputing the fact that American higher education must better adapt itself to the knowledge economy. To succeed in today's workforce, Americans must have more advanced knowledge and skills. Experts agree that today's "middle-class" jobs—those that ensure a good quality of life for citizens—are less and less attainable without education or training beyond high school!

Labor economist Tony Carnevale at the Georgetown University Center on Education and the Workforce has estimated that by 2018, 63 percent of all jobs will require some form of postsecondary education or training. That's a huge increase since the mid-'70s, when less than 30 percent of jobs required anything beyond a high school education. Carnevale's analysis shows that for virtually every major job category, more postsecondary education is critical to job success. For example, in 1973, only 38 percent of office workers had some kind of postsecondary education. Today nearly 70 percent of office workers have some postsecondary education, with 40 percent having at least a bachelor's degree. In the health care and education sectors, which continue to grow as human capital become more important in the knowledge economy, the same patterns can be seen. Since the 1970s, education and health care jobs have increased from 10 percent to almost 20 percent of all jobs, and the share of these jobs requiring at least some college increased from fewer than half in the 1970s to more than 75 percent today. And the list goes on: More postsecondary education is needed for factory jobs—with the growth of advanced manufacturing techniques—natural resource jobs, and most of the other major job categories.

Carnevale's data fit seamlessly with the latest feedback from employers—most of whom seem to be *pleading* for better-educated workers. In a survey conducted just last month by the Business Roundtable, 65 percent of employers said they already require an associate's degree or higher for most positions. And half of these employers said there is such a serious gap between their needs and their employees' skills that productivity within their companies is slipping. This may explain why the gap in earnings between those with and without a college diploma is growing.

While the needs of employers are important, especially in the current economic climate, I believe the needs of individuals are the real reason we must increase higher education attainment. The flip side of increasing opportunity for those with postsecondary education is that we are seeing opportunities for those without a credential rapidly evaporate. Indeed, we are now witnessing, for the first time in American history, the fact that the dividing line between the middle class and the working poor has become completion of some form of postsecondary education. Where I live in Indiana it's as clear as day – the solid middle class manufacturing jobs that high school graduates, or even high school dropouts, could get have disappeared. And they're not coming back.

I'll make one more point before moving on. The Federal Reserve Bank of New York did a study where they looked at job loss in all the recessions over the past 30 years – seven in all. They found that in each recession a larger proportion of job loss was structural, and therefore permanent. In 1980, and all recessions before that, most job loss was temporary – the office or plant would shut down for awhile or eliminate a shift, the workers would be furloughed, and most people would be hired back to their old jobs when the economy recovered. In 1980, 75 percent of the job loss was in this temporary category. Today, it is estimated that up to 75 percent of the jobs lost in this recession are being eliminated permanently. The plant stays closed, the company has gone bankrupt, or in some cases – like auto parts manufacturing in Indiana – virtually the entire industry has disappeared. I'm sure you know of many examples of this phenomenon in your own communities. Job loss today creates a huge need for retraining and up-skilling across the economy, and we are seeing this in exploding enrollments in all types of postsecondary education programs – but especially those that lead to employment. What is not as well known is that many economists are worried that our ability to quickly retrain and up-skill people has become a drain on our economy, and will inhibit the recovery.

So, for all of these reasons, you can see why Lumina has embraced this Big Goal. And it's clear that others have embraced it, too, including the President, who has pledged to make the United States the best-educated nation in the world by 2020. Policymakers in many states are looking for ways to boost student success as a way to improve their long-term economic outlook. Many of our peers—including the Gates Foundation, the Ford Foundation, the Kresge Foundation, and the Carnegie Corporation of New York, just to name a few—are making significant investments in efforts to improve college completion.

Now to my second point. It's one thing to understand that we need to increase the number and proportion of Americans – and Californians – who obtain a high quality college degree or certificate. It's quite another to actually do so. Fortunately, we know what we need to do. Based on our evaluation of the work of our grantees and many others, and a careful analysis of the available data, we believe that there are three things that must happen to reach the Big Goal:

- Students must be prepared academically, financially and socially for success in education beyond high school;
- Higher education success and completion rates must be improved significantly;
- Higher education must become more productive so that it can increase capacity and serve more students.

Even more importantly, we are convinced that if we do these three things, the nation will increase higher education attainment and reach the Big Goal. Obviously, none of these will be easy, but in fact we know how to do each one.

Let's look first at **preparation**. As I said earlier, before the Big Goal can be reached, many more students must be prepared academically, financially and socially for success in education beyond high school. And it's important to emphasize that *all three* areas—academic, financial

and social—must be addressed as co-equals in the pre-college preparation effort. Research shows that if any of these three aspects is ignored or underemphasized, the road to college becomes very rocky— and, for many, impassable.

So how do we do it? Here are three ideas:

- First, states and institutions must create and implement transparent higher education readiness standards, and those standards must be aligned across K-12, adult learner and higher education systems. One of the best examples of how to do this is right here in California – CSU's Early Assessment Program. It's a terrific program, and we and others have held it up as a model throughout the U.S. Of course, it's not enough by itself. States should make sure that their high school graduation standards are aligned not just with college admission standards, but with the expectation that high school graduates will be prepared to succeed in higher education. The new Common Core State Standards are a big step in the right direction, and California is a part of that effort.
- Next, students must be supported to attend and succeed in college through expanded state and community-based higher education outreach networks. Our research has shown that far too many students, especially first-generation students, low-income students, and students of color, simply do not have the information they need to prepare for success in college. They don't know what courses to take, they don't know how much college costs or where they are going to get the money, and they don't know how to find a program that is right for them and their needs. Their parents don't know any of this either, and don't know where to find out. The tragedy is that we also know from research that the vast majority of these young people not only want to go to college, they plan to go – at least they do when they are in the 8th grade. By the time they are 18, though, far too many of them have either dropped out of school or learned too late that they are not ready for success in college. This isn't just tragic – it's preventable.

Along with the Ad Council and the American Council of Education, we have an initiative called KnowHow2Go underway in 14 states, including California. We want to see it grow until every student and their family knows what they need to do to be prepared for success in college no later than the eighth grade. This is achievable, and we are committed to making it happen. We appreciate California's participation in this work, and we hope you will push even harder.

- We also know that federal, state and institutional policies must ensure that no student is denied access to higher education because it is too expensive. In the current fiscal climate for states, this is not easy to accomplish. I know you already have heard from WICHE President David Longanecker and others about how state policy on tuition and financial aid can have a huge impact on making college affordable. This includes a careful analysis of whether tuition rates in California can actually be too low to optimize access for low-income students. Obviously this is controversial, but if California

is leaving significant amounts of federal dollars on the table – funds that could support low-income students – then you have to consider it. Of course, we have to do the best we can to make aid available to low-income students, but unfortunately, it won't be enough. We must also begin to bring down the cost of delivering higher education. I'll have more to say on that topic in a moment.

Let's look now at the second critical outcome: significantly improving the **success** of students once they enroll in higher education. How do we do this? Again, I'll mention three ideas:

- The first is that states should assure that higher education institutions have the incentive to use proven strategies to move students – especially underrepresented students – to completion. By the same token, they should be held accountable if they don't do this. Let me be blunt – we know how to do this, and don't let anyone tell you otherwise.

I could go on at length about how colleges and universities can increase student success and completion, but my focus is on what you as policymakers can do. One answer is to tie more of the state funding for higher education to increases in student success. The Tennessee legislature has just passed such a provision in their funding formula, and Indiana and several other states have previously done so. Indiana allocates 7 percent of its state support for higher education on the basis of increasing degree completion, and even more importantly, they have increased this percentage every biennium since 2003. Indiana also used these same performance criteria to allocate necessary budget cuts earlier this year, sending a clear and consistent signal to institutions: that increasing completion and attainment is a priority for Indiana. Colleges and universities that were doing a better job in meeting the state goal of increasing completion saw their budgets cut less than others. I'll give you one more example: Pennsylvania has been implementing performance funding over the last decade. They've seen results: increasing graduation rates by nearly 10 percentage points. Persistence to the second year has also increased, especially for Hispanic students whose rates have jumped nearly 15 points.

Using performance criteria to allocate base funds – not just funds on the margin – sends an unmistakable message that colleges and universities are expected to respond to public priorities and goals, and will be supported for doing so.

- I'll mention in passing two more areas in which state policy can help increase college completion. The first is to advocate for the redesign, rebranding and improvement of developmental education. I am fully convinced that more innovative and effective developmental education programs are essential to support the success of at-risk students. The other is in the seemingly mundane but actually quite essential role of states in supporting the use of quality data in higher education. All you really need to know is that federal data on college completion is not terribly helpful for any type of policy decisionmaking. States, however, can develop data systems that follow the

progress of students from K-12 education, as they move from community colleges to universities – or vice versa – and as they enter the workforce. Achieving the Dream – a national initiative of community colleges to increase student success – has shown that a data-driven approach can pinpoint and then attack gaps in student achievement. It's an approach that's working at more than 100 colleges in 22 states, but it should become the norm through state policy.

Let's turn now to the final critical outcome: finding ways to increase **productivity** in the higher education system.

For us, productivity has two components taken straight from the classic economic definition of productivity: efficiency and effectiveness. For the postsecondary system as a whole to be truly productive, two things must happen: Cost per degree must be reduced, and these savings must be reinvested in the system so that it has the capacity to serve more students.

Let's look at the cost issue. To provide more high-quality degrees and credentials at lower cost, institutions must contain costs and reallocate their resources to programs that help more students succeed. This is not about "doing more with less" or any of those old and unworkable paradigms. In a more efficient higher education system, we should be rewarding institutions that focus on students completing quality programs, not just attempting them. We should be rewarding students for completing courses and degree or certificate programs. We should be expanding and strengthening lower cost, nontraditional education options through modified regulations. And we should be investing in institutions that demonstrate the results of adopting good business practices.

Lumina is working very actively to support efforts in all of these areas. For example, we provided funds for 11 states to develop plans and policy agendas that promote increased higher education productivity in their states, and have funded the implementation of seven of the plans. We have high hopes that these implementation grants will generate even more innovative ideas that can increase efficiency in higher education systems all over the nation, but we already know a lot about what needs to happen. And one of the things we have already learned is that state policy has a huge effect on the productivity of higher education.

In California, state statutes and regulations have been shown to inhibit productivity in specific ways. I'm sure you have already heard from Nancy Shulock about how state policy is inhibiting the ability of your community colleges to serve students. She identified two specific examples: the law requiring that 75 percent of instruction at community colleges be taught by full-time faculty, and another law requiring colleges to spend at least 50 percent of their budgets on direct instruction. These laws don't just reduce administrative flexibility – they make it difficult or impossible to develop and implement easily scalable programs that have been proven effective in meeting student needs. These laws make it difficult to deploy faculty as true instructional leaders, and maintain outmoded concepts of quality that are not based on demonstrable student outcomes. While these laws are not the sole cause by any means, this year California's community colleges reduced course sections by 5%, and are actually projecting

a reduction in enrollment for next year. Arizona is facing a state budget crisis that in percentage terms is actually worse than California's, but they are not seeing similar reductions in the ability of their community colleges to serve students. This situation in California must be turned around – and every policy that contributes to reducing productivity should be on the table.

There are other even simpler ways to save money that can be reinvested to serve more students. Pooling purchasing and back office operations is one. Ohio is a good example – they have half a dozen major statewide initiatives underway. The Rx Ohio collaborative drug benefit promotes statewide pharmaceutical purchasing. After one year in the program, Ohio State University saved 9 percent on its expenditures in this area. Joint purchasing is the obvious example, but there also opportunities to pool administrative functions, share facilities, and develop and offer joint academic programs. Unfortunately these efforts are still not the norm. I know there are similar efforts underway in California within the sectors, but they should be supported and greatly expanded. Cross-sector collaboration should also be encouraged.

One last example of what can be done is the expansion of high quality online education. Montana is showing what is possible with this approach. Without significant new money, Montana has created a statewide virtual community college that combines and re-packages programs from existing institutions and offers them online. Imagine the capacity of California to extend your colleges' reach, especially to working adults, while cutting down on duplication and lowering unit costs, if you embraced a statewide strategy to expand online learning and credentialing.

I know my colleagues on this panel have some specific guidance to offer about how California can begin to move forward on an agenda to increase higher education attainment – even in the current economic environment – so let me conclude with a final observation. Every one of the individual efforts I have outlined for you today has a specific place in achieving the outcomes of improved student preparation, success and productivity in higher education. We need to make progress on all three to get to that Big Goal by 2025.

But I hope that these outcomes represent something else as well: an opportunity to make a real and lasting difference. We know that the goal is big—and that to reach it we must question almost all of the assumptions that have guided our actions for decades. These include the assumptions built into the California Master Plan for Higher Education. But the essential commitment of the Master Plan must remain in place – for millions of individual students both now and in the coming years, and for the stronger, more secure California and nation that those citizens will build.

Thank you again for the honor of being with you.